JAPAN-U.S. RELATIONS: AUTOMOBILE TRADE AND CONFLICT 1978–1981

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INTRODUCTION

In postwar years Japan's economic recovery and growth has been nothing but unprecedented characterized as a "miracle." Risen like a phenix out of ashes of wartime destruction, her economy and industry have grown by leaps and bounds, particularly in the 1960s when in the pursuance of a doubling national income policy her growth rate registered 13% to 15% annually in real term. Spurred by the demands of growing market both at home and abroad and supported by the conditions conducive to the exports of her products and to the imports of necessary energy resources and raw materials[1], Japan has emerged in the 1970s as a leading economic power in terms of GNP, which is only second to that of the United States in the free world.

By the mid 1970s Japan had appeared a threat to the dominant economic position of the United States. America's economy, in the meanwhile, had shown signs of deterioration since the mid 1960s, when she was being drawn into the quagmire of the Vietnam War, despite President Lyndon B. Johnson's assertion that the American economy was strong enough to afford both the gun and the butter. The war that consumed unproductively billions of dollar had sapped the strength of the nation's economy and of the dollar, which contributed to the loss of competitiveness in world market and to the rise of inflation.

1 Zbingniew Brezizenski. *The Fragile Blossom. Crisis and Change in Japan* (New York: Harper & Row, 1972).

Moreover, the American industry had long neglected the improvement of productivity and quality control as well as market research as to what consumers wanted. Obsolete machines and equipments reduced productivity, while the Japanese industry had invested capital for the installation of new and efficient machines, introducing and adopting up-to-date technology. Not being an export-oriented country, the United States had paid comparatively little attention to the needs of overseas consumers who demanded quality goods that would satisfy their taste. On the other hand, quality control has become a household word in Japanese plants that produce impeccable quality products satisfying the taste of consumers in design, style, finish, and technology. Also labor wages in America had sky-rocketed as a result of the spiraling inflation, thus American laborers priced themselves out of competition. In contrast, Japanese labor wages had remained about a half of American workers until the 1970s.

All these factors contributed to the imbalance of American trade with Japan, that had been in favor of the United States until the mid 1960s. Beginning in 1965, Japanese export trade began to show a gradual rise turning her trade imbalance with the United States into surplus. The American trade deficit with Japan has remained unchanged, that is estimated at exceeding $20 billion for 1983. At the same time, Japanese consumer and industrial products have been flooding in American market, capturing a substantial portion of the market and wiping out some industries or threatening their existence. For instance, Japanese watches, cameras and optical equipments, televisions, audiovidual recording machines, and textile fabrics have virtually dominated the market or have put American manufacturers practically out of business. At the present, the Japanese computor and high tech industries are competing against U.S. manufacturers.

Other major strategic industries also met an aggressive Japanese competition. The steel industry is the case in point. The steel industry, one of the basic industries and an indicator of industrial strength, has been America's leading industry. The industry has lost the ground to Japanese imports; its plants and mills have been shut off, displacing hundreds of thousand of workers out of employment. Both the industry and labor unions complained of what they believed to be an

"unfair trade practice" of foreign companies, particularly Japanese competitors, and demanded some kind of trade restraints short of legislating a protectionist law.

With the backdrop of this trade imbalance and friction, a controversy over automobile trade broke out causing the most serious trade problem between the two trans-Pacific nations. The issue is by far the most significant development in the evolution of Japan-U.S. trade relations in which automobile accounted for over 16% of all trade moving between the two nations in the late 1970s.

Origins of the automobile controversy are traced to the early 1970s, when the first "oil shock" hit the petroleum industry. American consumers who had been driving gas gusslers began to switch to small Japanese cars which had a much better gas mileage. The trade problem, however, did not become acute until 1979 when the Iranian Revolution caught the US automobile industry unprepared for a shift to small cars of dollar-conscious American consumers who had to pay on the average $1.05 per gallon of gasoline. They rushed in panic to Japanese cars. "In January 1979," it is reported, "there were 850,000 unsold Japanese cars piled up on the U.S. docks. And then the Iranian crisis broke, and the inventories vanished. . . . Small-car imports took over more than 26% of the market, and the Japanese supplied over 50% of that."[2]

Unable to cope with the change in the consumer's demand, the Big Three, General Motors, Ford, and Chrysler, lost profit, closed a number of plants, and laid off workers by hundreds of thousands. In concert with labor unions, they demanded a remedy in the situation with appeal to Congress and the government and asked Japanese auto makers to exercise the voluntary restraints on exports. At the same time, they demanded Toyota, Nissan, and Honda establish assembly plants in America and produce cars under the same ground rules and conditions as those of the U.S. manufacturers. Eventually the Japanese auto makers agreed in 1981 to restrain exports by setting up a quota, effective April for three years reducing annually to 1.68 million cars. Honda and Nissan have built assembly plants in the United States since then as part of their effort in alleviating the trade friction. Toyota, No. 1 of the industry, has remained reluctant in acceding to the U.S. de-

[2] *Forbes* (April 13, 1981), p. 119.

mands procrastinating its decision until 1983, when it agreed with GM to manufacture small cars in California. With the conclusion of the agreement for building cars in America, the trans-Pacific automobile controversy settled for the time being.

In the following pages I have examined the genesis of the 1978-81 automobile trade conflict, presenting the development blow by blow and examining the positions of both Japanese and American auto manufacturers and of the governments. The paper focusses upon the 1978-81 period when the problem became acute and developed into a crisis proportion, seriously straining relations between the two giant economic powers that otherwise maintaining friendly ties bound by mutual security arrangement.

I

The history of the Japanese automotive industry goes back to early 1900 when the first motor vehicle was produced, Takuri I, a 12 horsepower, 2 cylinder gasoline-powered car assembled by Tokyo Automobile Works with imported parts in 1907. But before Takuri I rolling out of the plant, a foreign steam engined car was imported in 1898. During the early period foreign car sales was more important than domestic production. A small number of cars were manufactured by handiwork. Five-sixths of the cars in those days were imported from Europe and the United States, and only the rest manufactured in Japan with imported foreign parts, imitating foreign technology. Demand of cars was extremely limited; only large companies and the Imperial family possessed vehicles which were still considered a very luxury item.

In the 1912-45 period Japan's automotive industry developed gradually with the founding of Mitsubishi Motors in 1917 as a division of Mitsubishi Shipbuilding Company, and Isuzu Motors becoming independent of Ishikawajima Shipbuilding Company produced vehicles in 1918. It was not until after the Great Earthquake of 1923, which destroyed the Tokyo–Yokohama district, that stimulated the use of vehicles; need for trucks was high and passenger cars used as hired taxicabs and buses as a means of mass transportation were in an increasing

demand. With the expansion of the national economy and the mechanization of the military, the use of motor vehicles was accelerated for faster transportation and mobility. As part of the government's policy for building up a basic industry and for earning foreign exchange, and after government failure to encourage the *zaibatsu* to enter the industry, it "provided incentives for Toyota and Nissan to do so."[3] Subsequently, Toyoda Loom Works formed Toyota Motors Company in 1933 as the automobile division of the mother company, and in the following year Nissan Motors Company, with government encouragement and subsidy, started operation absorbing several smaller firms. The government also passed a law forcing Ford and GM, that had been producing cars in Yokohama and operating a knockdown assembly plant in Osaka, respectively, to reduce production at first and later to leave Japan.[4]

W.W. II completely destroyed the industry. It remained shattered and, at best, stagnant for several years after the war. The government again took the initiative to revive the industry. For instance, Toyota being plagued by labor disputes and facing a serious management crisis was saved from bankruptcy by the Bank of Japan. The future of the automobile industry, however, was still uncertain, because the Bank of Japan now under the presidency of "Pope" Ichimada Hisato, who wielded powerful authority over the industry, was set himself against extending credit to the promotion of the heavy industry on the ground that such industrial loan policy would be not only inflationary but also would "divert too many resources from other uses." On the other hand, the Ministry of International Trade and Industry (MITI) under Ikeda Hayato, who advocated a positive role of the government for the promotion of the industry with capital loans, disagreed with Ichimada the "Pope." Ikeda argued that the automotive industry was "an essential industry for economic development." The Korean War resolved the Ichimada-Ikeda wrangle; the war ushered Japan into

3 Ira C. Magaziner, "Japanese Industrial Policy: Source of Strength for the Automobile Industry," *The Japanese Automobile Industry; Model and Challenge for the Future?* ed. by Robert E. Cole. Michigan Papers in Japanese Studies No. 3 (Ann Arbor: Center for Japanese Studies, University of Michigan, 1981), p. 79.

4 *Ibid.* See also William Dunkan. *U.S.-Japan Automobile Diplomacy* (Cambridge Mass: Ballinger Publishing Co., 1973), p. 239.

an unprecedented period of prosperity. Toyota's monthly production supported by the war boom accruing to the special procurement of the U.S. Armed Forces rose from 1,000 to 4,500. The viability of the automotive industry, at last, was assured with a market for Japanese-produced cars. "Beginning in 1952, MITI developed a policy to protect and held fund for the development of the industry and to help it acquired needed technology."[5]

Thereafter, the government had continued to help develop the industry with a significant role consisting of "early nurturing of the industry through protection and financing; attempts to rationalize industry production; and assistance with exports and overseas marketing and distribution."[6]

In the 1950s and the 1960s the Japanese automobile industry expanded in a cocoon-like protection of government measures – prohibitive high tariffs which lasted until 1980, combined with quotas on imports, generous loans and special depreciation allowances, long term credits for the growth of large manufacturers, merger of smaller plants with a few larger producers for rationalization in management and production, rejection of foreign applications for imports of car technology, and the like.[7]

Under the MITI's protectionist policy, Toyota, Nissan, Honda, Toyo Kogyo, Mitsubishi, and Isuzu had expanded their production and facilities, and the rising standards of living and affluency during and after the Doubling National Income period of the 1960s also contributed to a rapid growth of the car industry. Japan's economy reached the stage where mass production of automobiles was both technologically possible and justified by the rapidly increasing domestic demand for pleasure and convenience.

Toyota concluded a business tie-up with Hino Motors in 1966 and with Daihatsu Motors in the following year. In 1978, Toyota produced a total of 3,000,000 units which accounted for 32.0 percent of Japan's entire motor vehicle production. Nissan, too, incorporated

5 Magaziner, "Japanese Industrial Policy," p. 80: Chalmer Johnson. *MITI and the Japanese Miracle* (Stanford University Press, 1982), Chapter Six.

6 Magaziner, "Japanese Industrial Policy," p. 80.

7 *Ibid.* pp. 80-82.

Prince Motors in a merger through MITI's encouragement and approval in 1966. In 1978, Nissan turned out of its assembly line a total of 2,500,000 vehicles, accounting for 26.8 percent.[8]

Honda Motors Co., Japan's top motorcycle manufacturer, has advanced into the field of four-wheels. The share of production is 7.8 percent of the market, enjoying the sales of "mini-cars," Civic and Accord.

Toyo Kogyo that is producing Mazda and is widely known for its low pollution rotary-engine cars. The company in 1971 negotiated with Ford for a capital tie-up but failed. Its production figure in 1978 was 820,000 with a market share of 9.4 percent.

Mitsubishi Motors Corp. made its debut in 1907, having become independent of Mitsubishi Heavy Industries. In 1971 the company went into a tie-up with Chrysler, obtaining 15 percent of the outstanding stocks.

Isuzu Motors, once was in big slump, belongs to the GM family with 34.2 percent of its outstanding stocks held by GM. Isuzu and GM are now in a complementary relation with each other, the former shipping small trucks to the latter and the latter benefiting from domestic marketing in Japan of Gemini passenger cars developed by the American partner.

With a combined total production figure of these six major automakers in Japan, the Japanese auto industry by 1980 has become the leading auto producer in the world surpassing the United States, that had enjoyed the unchallengeable position in the industry.

II

The 1978-81 automobile trade conflict can be traced its genesis to 1973, when the Arab nations resorted to oil embargo creating in America gasoline shortages and driving up the prices, which rose from 68¢ per gallon in 1973 to 80¢ in 1974 and 95¢ in the following year. Shortages of petroleum and the increase of gasoline prices had the significant impact on the sales of new cars; before the "oil shock" nearly 11.4 million

8 These figures are taken from statistics published by the Japan Automobile Manufacturers Association.

cars were sold, but the sales were reduced to 8.9 million in 1974 and 8.6 million in 1975. Not only the sales of cars declined, but also did U.S. consumers change their preference from large cars to smaller ones which were largely of foreign products. Although automobile executives in Detroit were reported to have arrived at the decision in 1972, almost one year before the first energy crisis, for manufacturing small cars in the anticipation of oil shortages, they failed to translate the decision into action for the development of small cars.[9] They adhered, however, to the Swann Theory of the marketing policies of the U.S. auto industry. They aimed at stimulating the psychological desires of the consumers for more powerful and luxury and roomier cars, which were a status symbol of success.

Moreover, large cars had been profitable for the manufacturers and dealers. "The industry could receive a much better return on investment if it sold an auto equipped with a large V-8 with a four-barrel carburetor and dual exhaust than a small four-cylinder engine."[10] In addition, the industry could expect a large margin of profit on almost mandatory options, such as power steering and brakes, much larger tires, more powerful engine, and automatic transmissions. The dealer also preferred to handle large cars. According to a 1977 market research, a dealer's margin of profit for selling a large car was estimated at 18% and that of a small one at 9% to 12%. In short, a dealer must sell 1.5 to 2 cars for an equivalent margin of profit earned from the sale of a large car. In the market with a strong bias for large cars, it is extremely difficult to shift the production line from large cars to small ones in view of the fact the managers, stockholders, and dealers put in their business practice the highest priority on profit-making. The U.S. auto makers were reluctant to change the production line to small cars which would require an enormous capital outlay but would bring less returns.[11]

Then in 1975 as part of the policy to conserve energy, the U.S. government adopted the Energy Policy and Conservation Act, which

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[9] *Keizai shimbun,* April 1, 1981;

[10] *Auto Situation: 1980.* Subcommittee on Trade of the Committee on Ways and Means U.S. House of Representatives, 96th Congress 2d session, June 6, 1980, p. 12.

[11] *Keizai Shimbun,* April 1, 1981.

required every domestic and imported car to achieve between 1978 and 1985 the minimum standards for gasoline mileage and provided a tax penalty upon manufacturers for every car they produced failing to meet these standards and also rebates to be given for every car performing better mileage than required.[12] The U.S. auto manufacturers objected strongly to these standards on the ground of technology and lack of consumer acceptance, and GM, for instance, still planned a major investment to market gas guzzlers that could only sell in oil glutton Saudi Arabia and Kuwait, to the much disappointment of Congressman Charles A. Vanik, chairman of the Subcommittee on Trade of the House Committee of Ways and Means, which was investigating automobile trade imbalance between Japan and the United States.[13]

With the stabilization of gasoline prices after 1976, auto sales climbed from an all-time low of 8.6 million units in 1975 to 11.3 million units in 1978, simultaneous with a 1.5 million increase in light truck sales (Table I). Nonetheless, Japanese automobile exports to the United States, over the 1974-78 period, had steadily increased and replaced iron-steel in 1976 as number one export commodity. The increase reflected a shift in consumer's demand to fuel-efficient small cars attributable to the high cost of gasoline that remained at 75¢ to 80¢ per gallon and doubts about the availability of compact cars, as shown in Table II. So concerned with an increase in the Japanese share in the market which reached 18.3% in 1975, that Congressman John H. Dent (D-Penn.) and the United Automobile Workers (UAW) sued foreign manufacturers

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[12] *Congressional Quarterly Almanac 1977* (Washington, D.C.: Congressional Quarterly Service, 1977), Vol. 33, p. 717. The Act required "the average fuel economy for passenger cars manufactured or imported by any one manufacturer in any model year after 1977 be no less than 18 miles per gallon in 1978; 19 miles per gallon in 1979; 20 miles per gallon in 1980 and 27.5 miles per gallon in 1985 and succeeding years." It also directed "the Secretary of Transportation to set standards for the 1981-1984 interim period at the maximum feasible average fuel economy level which would result in the progress toward the 1985 standards, which the Secretary could adjust downward to 26 miles per gallon." *Ibid. 1975,* Vol. 32, 223.

[13] Almost all the imported cars cleared the fuel efficiency regulations. Toyota models exceeded the standards in 1977 with 29 miles per gallon when the Act became effective. (U.S. Environmental Protection Agency, quoted in Yamamoto Choku. *Toyota Yonju-nen no kiseki* (40 Year History of Toyota) (Tokyo: *Daiamondo,* 1978), p. 239.); Only GM's Chevette with 19.2 miles per gallon cleared the standards. (*Congressional Quarterly Almanac 1975*) Vol. 32, p. 223.

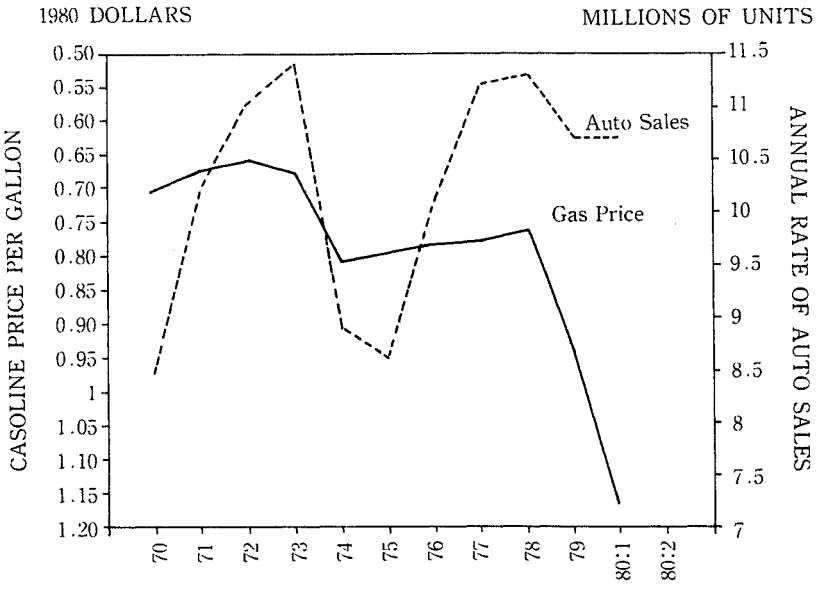
TABLE I SIZE DISTRIBUTION OF NEW AUTO SALES, 1970–1980

	Percent Compact Cars	Percent Mid-Size Cars	Percent Full-Size Cars	Annual Rate a/ of Sales (in millions of units)
1970	38	22	40	8.428
1971	39	20	41	10.202
1972	39	22	39	11.008
1973	43	22	35	11.439
1974	48	25	27	8.876
1975	54	24	23	8.640
1976	48	27	25	10.113
1977	47	28	25	11.184
1978	48	28	24	11.312
1979	56	23	21	10.669
1980				
1st Quarter	64	20	16	2.511
April	66	20	14	0.743

Source: Unpublished data from U.S. Department of Commerce, Bureau of Economic Analysis.

a/ Data for 1980 reflect actual unit sales, not rates.

TABLE II RELATIONSHIP BETWEEN AUTO SALES AND GASOLINE PRICE



Source: Based on data from United States Department of Commerce, Bureau of Economic Analysis.

charging them with dumping.[14] The Department of the Treasury, however, cleared the Japanese automobile industry of the charges.[15]

The second "oil shock" in the consequence of the Iranian Revolution had a telling effect on consumer demand. Gasoline prices went up from 80¢ in 1978 to $1.20¢ in 1980. Substantial shifts in sales patterns by size class occurred following a large increase in gasoline prices that rose as high as $1.50¢ in 1982. The market share held by compact autos increased from 56% to 66% in April 1980, while that of mid-size cars dropped from 23% to 20% and that of full-size cars declined from 21% to 14%.[16] The shift in consumer demand to smaller vehicles contributed to a record share of imported autos in the U.S. market, climbing from 17.7% in 1978 to 29.1% in June 1980.[17] Of the 17.7% market share in 1978, Japanese imports accounted for 12% and 21.3% of the 29.1% in 1980, surpassing that of Chrysler, Ford and American Motors.[18]

TABLE III MARKET SHARES OF SELECTED COMPACT MODELS MANUFACTURED BY NISSAN, TOYOTA, GENERAL MOTORS, AND FORD, 1979–1980 *a/*

	Unit Sales (in thousands)					Percent of All Compact Sales					1980 EPA Est. Fuel Economy MPG
	1979	Jan. 1980	Feb. 1980	March 1980	April 1980	1979	Jan. 1980	Feb. 1980	March 1980	April 1980	
Datsun 210	216.8	17.4	16.9	20.4	19.9	3.6	3.4	3.2	3.5	4.1	30.1
Toyota Corolla	257.1	26.5	27.0	24.6	19.4	4.2	5.2	5.2	4.2	4.0	27.0
Chevy Chevette	375.7	34.3	37.2	44.4	33.2	6.2	6.8	7.1	7.6	6.8	25.5
Ford Mustang	304.1	20.1	20.7	25.0	20.8	5.0	4.0	4.0	4.3	4.2	20.1
Totall – All Compact Cars	6,086.2	505.0	523.5	584.7	489.9	100	100	100	100	100	

a/ Best selling compact model for each manufacturer as reported in *Ward's Automotive News.*

The swing in car sales toward smaller, more fuel-efficient cars is attributed, beside the substantial jump of gasoline prices, to a number of factors. Domestic manufacturers have historically competed on a

[14] U.S. Congress. House. Hearing before the Subcommittee on Education and Labor. *Impact of Motor Vehicle Impacts in the United States.* 1st Session (March 4, 5 and April 15, 1975) H341-25 Appendix.

[15] *Japan Economic Yearbook 1977* (Tokyo: The Oriental Economist), p. 139.

[16] Unpublished data from U.S. Department of Commerce, Bureau of Economic Analysis.

[17] *Ibid.*

[18] *Ibid.*; *Nippon keizai shimbun,* April 19, 1981; *Solidarity,* April 1-15, p. 17.

very limited basis with foreign producers for the reason of a smaller margin of profit. Therefore, when customers shop for small cars, they are faced with a vastly greater number of choices among imported fleet of vehicles. Among subcompact cars, for instance, only 5 out of the 25 most fuel-efficient models are domestically produced. Similar shift, though slightly, is also noted in the share of U.S. compact car market. Of a total number of 6,024,000 compact cars sold in 1979, domestic manufacturers held 61.4% and foreign makers 38.6%; and in the average market share in the first four months of 1980 domestic manufacturers retained 58.8% and foreign makers 38.7%.[19] At this stage of the controversy the domestic manufacturers were doing relatively better in competing in the compact class against the foreign automakers than often supposed.[20]

The domestic manufacturer's success in holding their share of the compact car market is probably attributable in part to the price advantage that domestic cars had over imports until 1979. Comparing the sales-weighted list prices of the five-best-selling domestic small car models and the five best-selling imports, which appear roughly comparable, the sales-weighted list prices for the five top-selling domestic models is approximately 10% less than that for similar import models (Table IV). Given that the domestic models generally have poorer fuel economy than the imports, some of this initial price differential may be offset by the lower lifetime fuel costs of the imports. The lifetime costs of four comparable foreign and domestic models do appear to be approximately equal, the domestic having no clear cost advantage over the imports (Table V).

Despite 10% cost more than domestic models, American consumers continued to buy foreign models, especially Japanese imports, not only for their fuel efficiency but also for their good quality – fit and finish and repair frequency, as shown in Table VI. According to a study on repair frequency in the 1972-77 period conducted by *Consumer Reports*, four popular Japanese models (Datsun 200/B210, Datsun 510/710, Toyota Corolla, and Toyota Corona) are rated A (much less

[19] Unpublished data from U.S. Department of Commerce, Bureau of Economic Analysis.

[20] During 1979 and 1980, both the Chevy Chevette and the Ford Mustang outsold the Datsun 210 and Toyota Corolla, despite the superior fuel efficiences of the Datsun and Toyota models. See Table III.

TABLE IV COMPARISON OF LIST PRICES FOR SELECTED DOMESTIC AND FOREIGN MODELS

Model	Unit Sales [a/] January–June 1980	List [b/] Price (in dollars)
Domestic		
Chevette	202,128	4,138
Citation	201,263	5,206
Malibu	135,437	5,886
Mustang	128,103	5,743
Fairmont	164,237	5,005
Sales-Weighted Average		5,100
Import		
Toyota Corolla	140,552	5,598
Datsun 210	103,099	4,899
Toyota Celica	79,924	6,659
Honda Accord	92,305	6,799
Honda Civic	68,407	4,949
Sales-Weighted Average		5,762

a/ As reported in *Ward's Automotive Reports,* July 14, 1980.
b/ As reported in *Consumer Reports,* April, 1980.

TABLE V LIFETIME COSTS OF COMPARABLE DOMESTIC AND IMPORTED MODELS

Model	Initial [a/] Vehicle Cost (in dollars)	EPA Fuel [b/] Economy Rating (mpg)	Discounted [c/] Lifetime Fuel Costs (in dollars)	Estimated [d/] 10-Year Scheduled Maintenance Costs (in dollars)	Total Lifetime Vehicle Costs (in dollars)
Datsun 210 (2 door hatchback)	4,605	31	2,844	1,424	8,873
Toyota Corolla (2 door hatchback)	5,262	26	3,392	1,391	10,045
Chevy Chevette (2 door hatchback)	4,163	26	3,392	1,221	8,776
Dodge Omni (2 door hatchback)	5,065	23	3,834	980	9,879

a/ Based on list price as reported in *Consumer Reports,* April 1980. Includes discount of 6.2 percent on domestic compacts and 6.0 percent on imports, consistent with average discount data supplied by the U.S. Department of Commerce (Bureau of Economic Analysis) for first six months of 1979.

b/ Based on U.S. EPA, *1980 Gas Mileage Guide: Second Edition.*

c/ Assumes 100,000 mile vehicle life, $1.50 per gallon gas price, and discount rate of 15 percent.

d/ Based on the Subcommittee on Trade of the House Committee on Ways and Means, "Auto Situation: 1980."

TABLE VI REPAIR FREQUENCY & FUEL EFFICIENCY TEST OF PRINCIPAL CARS IN THE U.S. MARKET

	Repair Frequency[1]						MPG
	'72 model	'73	'74	'75	'76	'77	('78 model)
DATSUN 1200 / B210	A	A	A	A	A	A	40
DATSUN 510 / 710	A	A	B	B	A	A	29
TOYOTA Corolla	A	A	A	A	A	A	39
TOYOTA Corona	A	B	B	B	A	A	23
Vega	E	D	C	C	C	–	–
Pinto	C	B	C	C	C	C	29
Chevette	–	–	–	–	D	C	34
VW Beetle / Rabbit	B	A	B	B	C	B	31
MGB	C	C	C	C	–	–	20
RENAULT 12 / 15	–	E	D	D	–	–	25
FIAT 124 / 128	–	B	B	B	–	–	22

Sources: Repair Frequency: Consumer Reports MPG ('78 model): EPA, *1978 Gas Mileage Guide* in Yoshio Tan, "Waga kuni Jidosha Sangyo no Genjo To Tendo," (Situation and Outlook of Automobile Industry in Japan), *Sekai Keizai Hyoron* (Tokyo; Sekai Keizai Kenkyu Kyokai), Vol. 26, No. 6, June, 1978, p. 27.

[1] Repair Frequency
A : much less than average
B : less than average
C : average
D : more than average
E : much more than average

than average) or B (less than average). The closest foreign competitor is Volkswagen Beetle/Rabbit. On the other hand, all three domestic small cars (Vega, Chevette and Pinto) are graded C (average), D (more than average), and E (much more than average). The superior quality image of Japanese autos with better design is stuck with the American consumer, though some deny the overall quality of Japanese cars as fiction and myth.[21]

Nonetheless, quality issue is the question raised in congressional

[21] *U.S. Trade and Investment Policy: Imports and the Future of the American Automobile Industry.* Hearing before the Joint Economic Committee, Congress of the United State, 96th Congress, 2d session (March 19, 1980), pp. 12, 48-52. David E. Cole, "Analysis of U.S. and Japanese Automotive Technology," *Japanese Automobile Industry,* pp. 99-122. *Fortune,* June 16, 1980, p. 82.

hearings in which legislators repeatedly pressed automobile executives in Detroit and union leaders to get the answer from them why the American automotive industry and workers could not produce as good a car as the Japanese could. Their denial notwithstanding, the quality of Japanese cars is proved, substantiated by responses of American car buyers. One consumer said: "Many of friends who would never in their lives have bought a foreign car are changing their minds rapidly because of the experiences with their new American-made cars that are constantly breaking down. . . ." Another driver wrote: "I have owned 4 foreign cars over the years. They were gas savers . . . and built like solid tanks . . . you could not find anything wrong with them." The third one criticized laborers: "The American labor force is responsible for our poorly made cars. I suggest that we bring over Japanese inspectors to help straighten out our serious problem." Still another consumer expressed his disgust: "I have become so disgusted with the poor quality and performance and service of 'Detroit'-made cars. I have started to switch to Japanese X. We have 2, and we (family of 8) intend to buy more X's."[22] The consumer's perception of Japanese cars of higher quality than domestically produced autos is also shared by auto engineers. Asked to name which country produces the best quality cars, auto engineers from the five domestic automobile companies mentioned Japan (47%), followed by the United States (27%), West Germany (23%), and France (3%). They were of the opinion that "the Japanese lead in quality not because of superior technology but from (1) better workmanship on the production line, (2) attention to fine detail (both in design and assembly line), and (3) better rapport between workers and management."[23]

To be sure U.S. auto manufacturers have neglected to pay sufficient attention to quality as "they have been so busy competing with one another for profit maximization." Following Alfred Sloan's dictum that no greater competitive quality is necessary to gain market share against a competitor, American auto-makers have "aimed for an Acceptable Quality Level." In the American enterprise, it is more important to meet production quotas than to control quality, with the

[22] *Auto Situation: 1980,* Appendix F, pp. 86-88.

[23] *Ibid.*, p. 47.

result that "all too often, employees at all levels of the organization get a gentle slap on the wrist for poor quality; but they get belted for failing to meet production quotas." This is where American manufacturers have failed; this is where Japanese automakers have succeeded. Quality control has become a household word in the Japanese industry and a responsibility of everyone as well as a community effort, with the result that "Toyota generates over 57,500 suggestions every year – 17 per employee – adopts 90% of them. GM last year /1980/ generated less than 1% and adopted only 30%."[24]

American car buyers were attracted to Japanese models as they were now competitive with prices of American cars. Beside quality control, the Japanese auto industry has improved productivity with an introduction of computer-controlled robots. Automation raised productivity more than 60% manufacturing 11 million vehicles in 1980. As a result, a Japanese car sold in the U.S. market was $1,000 to $1,500 less than a U.S. car, offsetting the price advantage held by domestic compact cars.[25] Throughout 1980 sales of Japanese sedans remained high maintaining 21.3% in the market share with 1,908,235 units sold, while domestic vehicle sales declined to 6,578,252 units in 1980 from 9,159,815 in 1978 (Table VII).

The popularity of Japanese imports alarmed the automobile labor union and the industry, particularly when the share of imported cars recorded as much as 26.7% in 1980, which is well over the 20% "danger line." In addition, they were impatient with the predicament in which

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[24] *Forbes,* April 13, 1981, p. 125. *Auto Situation: 1980,* pp. 55-77. Robert E. Cole, "Quality Control Practices in the Auto Industry: United States and Japan Compared," *The Japanese Automobile Industry,* pp. 87-97.

[25] *Forbes,* April 13, 1981. pp. 124-5. *The U.S. Automobile Industry, 1980. Report to the President from the Secretary of Transportation (January 1981),* Office of the Assistant Secretary for Policy and International Affairs, Department of Transportation, pp. 6-11. "Impact on productivity was startling. In 1970 Japanese workers turned out only 15 vehicles per workers per year. By 1980 they were producing 28. During the same period annual U.S. productivity rose from 9 to 12."

New York Times Magazine, (November 14, 1982) reported Japanese ability to put a car together with 60 hours of labor compared with about 120 hours in the U.S. Quoting Transportation Secretary Drew Lewis's 1982 report, the paper reported a breakdown of the Japanese manufacturing cost advantage on a typical subcompact car. "More advanced technology, $73; better quality control, $329; better use of labor, $478; lower absenteeism, $81; lower parts inventories, $550; better materials handling, $41; different assembly-line relief systems, $89; and lower union representation cost, $12. The result is that the Japanese have figured out a way to make a car for $2,203 less than the American companies who taught the world how to mass produce."

TABLE VII NEW VEHICLE SALES IN THE U.S.

	1981		1980		1978		Change in Sales	
	Sales	Share	Sales	Share	Sales	Share	81/80	81/78
CARS								
GM	3,796,696	44.5%	4,116,482	45.9%	5,341,700	47.9%	−7.8%	−28.9%
Ford	1,380,600	16.2	1,475,231	16.4	2,536,738	22.7	−6.4	−45.6
Chrysler	729,873	8.6	660,017	7.4	1,087,987	9.7	+10.9	−32.9
AMC	136,682	1.6	149,438	1.7	170,739	1.5	−8.6	−19.9
VWA	162,005	1.9	177,084	2.0	22,651	0.3	−8.3	
Domestic	6,206,296	72.7	6,578,252	73.3	9,159,815	82.1	−5.7	−32.2
Toyota	576,491	6.8	582,204	6.5	441,800	4.0	−1.0	+30.5
Datsun	464,805	5.4	516,884	5.8	338,096	3.0	−10.1	+37.5
Honda	370,705	4.3	375,388	4.2	274,876	2.5	−1.3	+34.9
Mazda	166,105	2.0	161,440	1.8	75,326	0.7	+2.9	+120.5
Subaru	152,062	1.8	142,969	1.6	103,274	0.9	+6.4	+47.2
Mitsubishi	110,940	1.3	129,350	1.4	103,292	0.9	−14.2	+7.5
Isuzu	17,513	0.2	0		19,222	0.2		−8.8
Japanese	1,858,622	21.8	1,908,235	21.2	1,355,886	12.1	−2.6	+37.1
European	468,484	5.3	490,048	5.5	644,029	5.8	−4.4	−27.3
Imported	2,327,106	27.3	2,398,283	26.7	1,999,915	17.9	−3.0	+16.4
Total Cars	8,533,402	100.0	8,976,535	100.0	11,159,730	100.0	−4.9	−23.5
TRUCKS								
Domestic	1,809,855	80.2	2,002,532	80.5	3,872,367	91.7	−9.6	−53.3
Imported	447,568	19.8	484,614	19.5	337,169	8.3	−7.6	+32.7
Total Trucks	2,257,423	100.0	2,487,146	100.0	4,209,536	100.0	−9.2	−46.3
VEHICLES								
Domestic	8,016,151	74.3	8,580,784	74.9	13,032,182	84.8	−6.6	−38.5
Imported	2,774,674	25.7	2,882,897	25.1	2,337,084	15.2	−3.7	+18.7
Total	10,790,825	100.0	11,463,681	100.0	15,369,266	100.0	−5.9	−29.8

Fair Practices in Automobile Products Act
Hearing before the Subcommittee on Commerce, Transportation, and Tourism of the Committee on Energy and Commerce. House of Representatives 97th Congress, 2d session (March 2, 1982), p. 106.

they felt helpless to curb the upward sales of Japanese models, because the U.S. automobile industry was behind the race to meet the petroleum efficiency standards; it was faced with a prospect of reducing production; and at the same time, some companies like Chrysler were such financial difficulties that they had to layoff workers. The shutdown of plants idling workers may not be attributed solely to the pene-

tration of Japanese vehicles into the U.S. market,[26] but the unemployment situation had assumed a serious proportation and labor unions asked Congress for a relief. Appearing before Congressional hearings to demand relief and protectionism, UAW President Fraser reiterated his statement describing the plight of American workers engaged in the automobile industry and allied manufacturing industries. In a testimony in the Subcommittee on Commerce, Transportation, and Tourism of the House Committee on Energy and Commerce, Fraser stated that nearly 250,000 autoworkers were "indefinitely unemployed in General Motors, Chrysler, Ford, Volkswagen, and American Motors," excluding figures in the parts-supplier industry. In Illinois, Indiana, Michigan, and Ohio, he said, they had "double-digit unemployment."[27] Congressional Budget Office, after having studied current problems of the American automobile industry, described the unemployment situation as "extremely severe," reporting as follows:

> During the first week in July /1980/ about 246,000 (31 percent) of the major automobile manufacturers' hourly workers were on indefinite layoff status. Another 30,000 worker were temporarily laid off because of short-term plant shutdowns, and close to 100,000 employees of dealerships were either laid off or working reduced hours. In the last year and a half, the number of production workers in the automobile industry has plunged to a level as low as that experienced during the 1974-1975 recession. This may be worsened in the near future by temporary layoffs resulting from model-year changeovers.[28]

The severe unemployment situation was not confined to the auto industry but extended to allied industries, as pointed out by Fraser,

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[26] Some plants were shut off because of overproduction or energy and parts supply shortage. "American Motors plans to partly shut down some of its small car assembly production for weeks beginning April 25, making 3,850 workers ideal; spokesman says more is being made to balance production with sale." (*New York Times* April 22, 1978.) General recession, high interest rate, and credit control also affected sales of vehicles.

[27] *Fair Practices in Automotive Products Act.* Hearing before the Subcommittee on Commerce, Transportation, and Tourism, House Committee on Energy and Commerce, 97th Congress, 2d session, March 2, 1982, p. 83. *United States-Japan Relations.* Hearing before the Committee on Foreign Affairs, House of Representative, and Its Subcommittees on International Economic Policy and Trade and on Asian and Pacific Affairs, 97th Congress, 2d session, March 1, 3, 9, 17, 24; April 27; June 2, 15; August 4, 1982, p. 642.

[28] Natural Resources and Commerce Division, Congressional Budget Office. *Current Problems of the U.S. Automobile Industry and Policies to Address them.* Staff Working Paper (July 1980), p. 19.

because they relied on the automobile industry for employment. Steel-iron, non-ferrous, aluminum, and synthetic rubber industries were seriously affected by the shutdown of auto plants and manufacturing slowdown. It is estimated that about 350,000 of supplier industry workers were currently laid off. Adding the figure to 250,000 unemployed automobile workers and 100,000 laidoff dealer employees, "a total of about 700,000 people are unemployed because of the automobile production slowdown."[29]

The jobless situation was particularly critical in five mid western states – Illinois, Indiana, Michigan, Ohio, and Wisconsin, where the automobile industry had more than 65% of employment in 1977. Anderson, Indiana, a town of 65,000, is typical of such community whose economy depends on General Motors. It is the home of two GM divisions – Guide and Delco Remy. Guide, that makes bumpers, rearview mirrors, and taillights, employed at the peak a few years before 6,000 people; Delco Remy, that manufactures ignition systems, generators and starter motors, employed 16,000. Now the two plants laid off more than 5,200 workers, or one-fourth of the people on the payroll. The unemployment situation of 20.9%, one of the highest in the nation, had the flattening effect on the local business with the result it put "more than one out of every five Anderson workers out of a job."[30] People were selling houses or moving from a comfortable rented house to a cheaper one. Young people were leaving the town to look for a job opportunity elsewhere, with the result "it looks as though an entire generation has been snatched from Anderson, as indeed it has." "With fewer young people around, the outlook for babies is even less promising than it has been in the rest of the country. The town recently closed six of its 24 elementary schools."[31] No relief was in sight.

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[29] *Ibid.*, p. 23.

[30] Lee Smith. "From High Pay to No Job in a GM Town," *Fortune*, June 14, 1982, pp. 123-4. Of auto towns, only Flint, Michigan, where Buick and Chevoretts are made, is the highest rate – 23.5%. Fraser said Michigan has had 2 years of double-digit unemployment. *Fair Practices in Automotive Products Acts*, p. 83.

[31] *Fortone*, June 14, 1982, p. 123.

III

Afflicted by surging imports, falling profit, and the raging unemployment, the automobile industry and labor unions launched a campaign to restrict the imports of Japanese vehicles appealing Capitol Hill for federal help. Alarmed by Japanese imports capturing 21.3% in the U.S. market in the first three months of 1980 and surpassing Ford, Chrysler, and American Motors, and by a report released by Ford revealing that it lost $400 million in the last quarter of 1979, UAW President Fraser, who was also a member of the Board of Directors of Chrysler Corporation, demanded that Japanese firms limit exports to their 1977 levels and build cars in the United States.[32] While he was not in favor of erecting a higher tariff barrier and starting a trade war with Japan that could ricochet against North American works whose jobs depended on foreign exports, Fraser asked Congress that it should pass a local content requirement. In his specific proposal, Fraser suggested a graduated percentage requirement, so that as sales of Japanese cars here increased, the local content requirement would rise. If this bill is legislated, Toyota, for instance, that has been marketing more than 500,000 units in the U.S. market, is required to use more than 90% of U.S. manufactured parts.[33]

Fraser had maintained the position all along, which he presented to Japanese automaker officials when he visited Japan in February 1980. While in Tokyo, he met Prime Minister Ohira Masayoshi and officials of Foreign Affairs, MITI, Toyota, and Nissan.[34] In his conversations with President Ishihara Shunji of Nissan and President Toyota Eiji of Toyota,

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[32] *Solidarity,* April 1-15, 1980, p. 17.

[33] *Nikkei shimbun,* April 30, 1982.

[34] Fraser's visit created a whirlpool of confusion and apprehension in Japanese auto industry circles. They were puzzled as to what capacity he visited Japan. Neither the Japanese Embassy in Washington nor the American Embassy in Tokyo had anything to do with inviting Fraser. As it was turned out, the Japan Automobile Workers invited him as a private guest. He made remarks as if he were a politician or a government official. His statements like legislating an imports restraining bill, restricting the imports of Japanese products, and excluding Honda from a list of companies to be restricted, cast doubt about Fraser's status and sincerity on officials of Toyota and Nissan. Nonetheless, that the Prime Minister and the Foreign Minister met Fraser is indicative of the jittering nervousness of the Japanese statesmen who were anxious to settle the automobile controversy at the earliest opportunity. (*Asahi shimbun,* February 15, 1980).

Fraser asked them for the earliest decision to build cars in the United States, emphasizing that time had come for the "decision and action, not investigation." Requesting that Japanese auto manufacturers should establish a plant by 1982, the UAW president tried, though unsuccessfully, to assure them of the quality of American autoworkers about which the Japanese had some reservation. "American workers," he defended, "are producing quality cars and autocycles at Volkswagen and Honda plants that have been operating in the United States." On Japanese exports, Fraser proposed that Japanese automakers cut auto exports from the 1980 level of 2.3 million cars to the 1977-78 level of 1.5 million vehicles.[35]

Response from Toyota and Nissan, however, was negative. He was bitter and disappointed. While expressing appreciation for satisfactory meetings with the Prime Minister, the Foreign Minister, and Honda officials who had made the decision to build vehicles in the United States, Fraser, in a press conference with Japanese reporters, charged Nissan and Toyota officials who on the ground of profitability were reluctant to establish a plant in America and had been procrastinating the decision. His charge was coupled with a veiled threat that should the Japanese delay the decision a protectionist move might be generated not only against automobiles but also against other Japanese products. As if he were a member of Congressional staff, Fraser revealed that he had a letter from Congressman Vanik purporting that his subcommittee on trade would "hold a hearing within a month to investigate the impact of imported cars and auto supply parts on the American automobile industry." Fraser concluded the press interview with a warning that the criticism against Japanese automakers would develop into an emotional outburst that would be hard to contain once a Congressional hearing started.[36]

The Japanese automaker executives, however, were not persuaded by Fraser's argument nor were they shaken by his warning for import restrictions by legislature. The government in Tokyo was anxious to settle the controversy in a political solution before the scheduled visit

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35 *Asahi shimbun*, February 14, 1980. The figure includes light trucks.

36 *Ibid.*, February 14, 22, 1980.

of the Foreign Minister to Washington on February 19,[37] but the auto industry was unhurried, taking the view that the conflict was an economic issue that should be settled as a business proposition. President Toyota had already made clear the position of Toyota to Kurihara Shohei, chief of the Machineries and Information Industry Bureau of the MITI that his company was not prepared for manufacturing vehicles in America, though such a possibility had been under "serious consideration." To Kurihara's query if his company would not even entertain the idea of sending an investigation team to America for exploring the possibility, Toyota remained uncommitted lest it might "raise a false expectation in America causing an adverse effect." He did however assure the MITI official that Toyota would exercise prudence on exports. President Ishihara of Nissan also told Kurihara that the time was not ripe for the decision to manufacture vehicles in the United States.[38]

In short, the position of the Japanese automobile industry can be summarized in four points:[39] First, because the actual hiring of workers following the establishment of a plant would be a few years ahead, it would not help alleviate the critical unemployment situation at the present; second, because the big three American automobile manufacturers were expected to change the production line to small cars, they would be tough competitors in a few years; third, because manufacturing operation in the United States would result in reduction of exports, officials of the industry were afraid of the effect upon subcontract parts suppliers. Much of Toyota's success had been attributed to the efficient on-time delivery system of parts suppliers. Lastly, because labor wages in America were much higher than those paid in Japan and also the Japanese makers were skeptical of the ability of American workers for quality control and of executives for labor management, the Japanese industry was reluctant to undertake such a project. The risk is too great for what the Japanese see in it little merits and profit.

Central to the issue is profitability. This is a legitimate question for a businessman to pounder about, especially such decision may

[37] *Ibid.*, February 16, 1980.

[38] *Ibid.*, February 10, 1980.

[39] *Ibid.*, February 10, 17, 1980.

decide the fortune of his company. Toyota manufactured more than 3,000,000 cars annually and made a net profit of 40,000 yen per unit in 1978. According to a 1978 calculation, the company would stand to lose 100,000 yen per unit, should it build cars with a plant having an annual production capacity of 200,000.[40] Wages of American auto workers was $15 per hour (1980), which was about 60% to 70% higher than Toyota workers who received about $8 to $9 per hour. Toyota was skeptical of management-labor relations in the United States, where the automobile industry had been plagued with labor strikes. Toyota is noted for excellent management-labor relations free from labor strikes for the past 30 years, and also for its "kanban" system designed for manufacturing cars with an on-time delivery of materials, thus eliminating wasteful inventories.

In sum, Toyota and Nissan were understandably hesitant to advance into the United States for manufacturing vehicles, which would require 200 billion yen ($990 million) of investment at a high stake. As Hanai Shohachi, chairman of Toyota Automobile Manufacturing Co., said, it was an unacceptable business proposition. "We are bound to lose money. No matter how much pressures we get /from the government and U.S. business, labor, and Congressional quarters/, this is the question we as a private entrepreneur cannot make the decision."[41] *Zaikai* circles also shared the position of the automotive industry, criticizing the demand of the United States as being unreasonable. "It is wrong," said President Doko Toshio of the powerful *Keidanren,* "to attempt to solve the question on the government level. It should be settled on the business level." "It is an unreasonable demand," Ohki Bunpei, president of the *Nikkeiren,* said emphatically, "Who is going to look after the company if it fails in its venture?" It is not a good policy to tramp down liberalism." *Zaikai* circles were in unanimous with the opinion of Kohno Fumihiko, chairman of the Defense Industry Committee of the *Keidanren,* that the unreasonable demand was "designed for the Presidential election."[42] Toyota Eiji was even more candid; the real intention of the U.S. demand, he said, was to drag out Japanese automakers unto the same ground and bust them out of

[40] *Ibid.* [41] *Ibid.*, February 27, 1980.

[42] *Ibid.*, April 8, 1980

competition once for all.[43]

Anxious to seek a solution to the auto trade conflict at the earliest time, the Japanese government interceded in the controversy. Following Kurihara's conversations with Toyota and Ishihara, sources close to the Prime Minister were reported to have directed Vice Foreign Minister Takashima Masuo to hold a meeting with officials of the Foreign Ministry, the MITI, and the automobile industry in order to come up with a concrete proposal for settlement before the trade friction went out of control.[44] At the same time, Yasukawa Takeshi of the Foreign Office in charge of foreign trade confided to Fraser in Tokyo the government's intent to persuade Toyota and Nissan to build vehicles in the United States.[45] The policy of the Foreign Office and the MITI was to settle the automobile conflict before May or June, or July at the latest, because U.S. Trade Representative Reubin Askew was due in Tokyo in May to negotiate the controversial issue of the KDD procurement and because the Presidential election would become intensified by summer. The election would make the trade conflict much more complicated. By persuading Toyota and Nissan for the establishment of an assembly plant in the United States, the MITI hoped to ward off a move in the United States for trade protectionism directed not only against automobiles but also against semiconductors and steel.[46] As a means to induce the reluctant automotive industry, the MITI promised to its officials that the Ministry would make its services available for negotiating the conditions for building an assembly plant in the United States. The MITI's line of persuasion is threefold. First, the United States is an important market for the industry because a one-quarter of manufactured vehicles in Japan is exported to that country. Second, a production base in an export market in the long run is indispensable for securing the share. Finally, it is better to advance to the United States while American business, labor, and Congressional circles are inviting the Japanese auto industry. Procrastination will provoke American public sentiment that would

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[43] Interview with Toyota Eiji, *Ibid.*, March 3, 1980.

[44] *Ibid.*, February 27, 18, 1980.

[45] *Ibid.*, February 15, 1980.

[46] *United States-Japan Trade Report.* Subcommittee on Trade of the Committee on Ways and Means, U.S. House of Representatives, 96th Congress, 2d session (September 5, 1980), p. 26.

generate a move for legislating a protectionist act.[47] The thrust of the government suasion is to nip in the bud of the trade conflict before it begets an adverse effect on such issues as the KDD procurement and defense and security. Because the auto manufacturing industry is making profit, it should serve as a lightning rod of U.S. demands or it should be offered for the sake of national interest on the altar of sacrifice.[48] Of course, the auto industry had no intention of becoming a sacrificial lamb.

The government, however, failed to convince Toyota and Nissan even with a suggestion to Toyota for the establishment of a half truck assembly plant in the place of a passenger car factory. When Foreign Minister Ohkita Saburo visited Washington on March 21, he had no *omiyage* to please Special Trade Representative Askew. While the Foreign Minister was personally concerned of the conflict and was in favor of capital investment in the United States by the Japanese automakers, he had to concede that the "decision is ultimately up to the enterprise to make and the government can do little but encourage the automakers to outlay capital investment in the United States."[49]

(To be continued.)

[47] *Asahi shimbun,* February 12, 28, March 1, 1980.

[48] *Ibid.*, March 1, 1980.

[49] *Ibid.*, March 16, 22, 1980.